



UNC
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Memorandum

Date: November 1, 2010

To: Bob Weiss, Information Technology and Transportation, North Carolina General Assembly Fiscal Research Division

From: Brent Lane, Director, UNC Center for Competitive Economies

Subject: State Transportation Funding Debt Affordability Study

Thank for your response to our previous pre-proposal for the Joint Legislative Transportation Oversight Committee's pending "State Transportation Funding Debt Affordability Study". I appreciate the prudence and budgetary discipline you exhibited in your response. Since our discussion I have consulted extensively with my Senior Research Director Dr. Jason Jolley and other UNC colleagues about the best ways to address the Committee's and the General Assembly's information needs within the narrowed budget parameters you described.

We were substantially successful in meeting your targets. The attached revised pre-proposal incorporates our discussions in a revised preliminary "Scope of Work" **consisting of a five month study (December 2010 to April 2011) at an estimated direct cost of \$60,000.** I look forward to discussing the attached proposed Scope of Work with you and the Committee.

**Preliminary Scope of Work
Statement of Work**

North Carolina Study of Strategic Transportation Projects & Debt Affordability

Joint Legislative Transportation Oversight Committee

*Submitted by the UNC Center for Competitive Economies (C³E),
Kenan Institute of Private Enterprise/Kenan-Flagler Business School*

In considering whether or not to issue future debt, North Carolina has historically worked to maintain the highest bond rating (currently AAA) with the major credit rating agencies, such as Fitch, S&P, and Moody's. As such, the guidelines, ratios, and metrics used by these credit rating agencies have impacted if, when, and how the state decided to issue debt for capital projects, such as transportation improvements.

SESSION LAW 2010-31, SENATE BILL 897, SECTION 28.7.(e) requires that the Joint Legislative Transportation Oversight Committee shall study the state's debt affordability for State transportation funding and that the Committee shall contract with The University of North Carolina's Kenan-Flagler Business School to complete a study comparing the State's transportation debt practices to those of other states with strong credit ratings and to make appropriate recommendations for the use of debt for strategic transportation projects.

To assist the Committee in the completion of its legislative mandate,

The UNC Center for Competitive Economies (C³E) now proposes to undertake a multi-layer research project to answer these questions. To this effort C³E brings the considerable resources of its office, the Kenan Institute and the UNC Kenan Flagler School of Business, as well as the knowledge and resources of colleagues from the UNC School of Government and/or School of Law to provide the breadth of expertise required to this task as necessary.

PROJECT TASKS

(Phase 1) Task One: "Debt Affordability Study" Verification and Alternative Measures

In February 2010, the Debt Affordability Advisory Committee issued a "Debt Affordability Study" to the Governor and General Assembly to assess the impact of future debt issuance on the State's fiscal position and to inform financial decision-making. The report also provided a methodology for "measuring, monitoring, and managing" the State's debt levels with a goal of protecting the state's bond ratings. C³E proposes to revisit the study and confirm its assumptions and findings. C³E will also determine whether alternative measures and assumptions might yield different findings.

Task Activities:

1. Study verification
 - Researchers will examine the assumptions used in the study and, where possible, provide independent verification of the study findings
2. Measurements and metrics confirmation
 - Researchers will examine the measurements and metrics used by the study committee to determine whether these instruments are common to similar studies conducted in other states. Researchers will also relate the study metrics to the metrics used by bond ratings entities.

3. Alternative measures of fiscal health
 - Researchers will examine additional and alternatives for “measuring, monitoring, and managing” the State debt drawn from other states and academic research.
4. Alternative findings to Debt Affordability Study
 - Researchers will determine whether the use of additional and/or alternative measures substantially change the recommendations and findings of the study committee.

Task One: <u>“Debt Affordability Study” Verification and Alternative Assumptions and Measures</u>	
Schedule	Months 1 through 5
Budget	\$30,000

(Phase 1) Task Two: “Debt Affordability Study” Longitudinal Comparison

The Debt Affordability Advisory Committee’s “Debt Affordability Study” issued in February 2010 will be compared to prior to studies to determine if the recommended debt capacity levels deviate from prior recommendations or practices or those in other states.

Task Activities:

1. Comparison to other states
 - Researchers will compare the findings from the study to the debt capacity level recommendations in peer states
2. Review of differences
 - Researchers will provide a review of differences among the states with respect to debt capacity levels

Task Two: <u>“Debt Affordability Study” Comparison</u>	
Schedule	Months 1 through 5
Budget	\$25,000

(Phase 1) Task Three: Scope of Power of NCDOT to enter into debt and debt-like agreements

The ability of the North Carolina Department of Transportation to enter into debt or debt-like agreements to facilitate and expedite transportation projects, such as US 485 in the Charlotte area may have implications for the state’s bond rating and debt service costs. The researchers will work with colleagues at the UNC School of Government and/or School of Law to address this question.

Task Activities:

1. Determine the implications of the NCDOT entering into debt or debt-like agreements on the state's bond rating and debt service costs?
2. Project additional debt accumulations based on multiple utilization scenarios and conventional debt instrument offsets
 - Researchers will work with colleagues at the UNC School of Government and/or School of Law to address this question.

Task Three : <u>Scope of Power of NCDOT to enter into debt and debt-like agreements</u>	
Schedule	Months 2 through 5
Budget	\$5,000

DELIVERABLES

Completion of the proposed “Scope of Work” will yield numerous informational products that will be delivered by the Project Team in varying forms, including oral and verbal presentations on interim and final project outcomes.

The specific outcomes intended for this research include:

- An identification, examination and validation testing of the key assumptions and metrics included in recent and prior Debt Affordability Studies
- An examination of how such assumptions and metrics influence Debt Affordability Study findings and how comparable alternative valid measures and/or interpretations could affect findings
- A transportation capacity outcome-based comparative analysis of North Carolina's bond rating and debt inventory to states with highly rated transportation network
- A transportation capacity outcome-based comparative analysis of North Carolina's bond rating and debt inventory to states with similar bond ratings and/or debt inventories
- A national relational analysis of bond ratings, debt inventories and transportation infrastructure qualities
- A comparative opportunity cost analysis of multiple fiscal and economic scenarios for North Carolina transportation investment and debt inventories

PROJECT TEAM

THE UNC CENTER FOR COMPETITIVE ECONOMIES (C³E) is part of the Frank Hawkins Kenan Institute of Private Enterprise and UNC's Kenan-Flagler Business School of the University of North Carolina at Chapel Hill. The Center brings the considerable resources of the University to help communities in North Carolina, the United States and beyond address critical challenges of competitiveness and economic development. In that role, C³E conducts economic policy studies for local, state and national governments across the spectrum of economic development issues. In particular, C³E designs, develops and deploys econometric

technologies to analyze the economic impact of various interventions on state, regional and national economies.

Brent Lane, Center Director, UNC Center for Competitive Economies and an Adjunct Assistant Professor in the Kenan-Flagler Business School brings three decades of experience at the state and regional government levels, as well as within the non-profit sector, in the integration of programs and personnel to refine and redirect targeted economic development initiatives. Mr. Lane's professional expertise and research interests encompass the roles of technological innovation and emergent industry financing in economic competitiveness, venture capital, and research commercialization and entrepreneurial development in a variety of private, public and university sector venues. Under Mr. Lane's leadership the Center is pioneering the investigation of establishment-level dynamics in industry clusters, especially the identification of emerging high growth companies.

Dr. G. Jason Jolley, Senior Research Director, UNC Center for Competitive Economies and an Adjunct Assistant Professor in the Kenan-Flagler Business School. He holds a Ph.D. in public administration in the School of Public and International Affairs at North Carolina State University where he is specialized in economic development and research methods. His dissertation research develops a predictive model of local government adoption of economic development incentive policies using covariates drawn from diffusion of innovation and economic development literature. . He also holds a Master of Arts in political science from the University of Tennessee and a Bachelor of Arts in economics from the University of North Carolina at Chapel Hill. He has a decade of experience in economic development and planning in North Carolina and Illinois, including working for non-profit and county economic development agencies and for a chamber of commerce. He is developing and teaching a new MBA course on “financing mega-projects” which examines the public-private partnership financing mechanisms used to fund large scale infrastructure investments.

INSTITUTIONAL COLLABORATIONS

This project involves extensive field and survey research requiring numerous qualified individuals and capabilities deployed throughout North Carolina. To accomplish this C3E has proposed collaborations with colleagues at the UNC School of Government and/or School of Law.

PROJECT SCHEDULE AND BUDGET

C³E proposes that the work be performed under the terms of a firm fixed price contract of \$60,000 for a project term of 5 months running from December 2010 to April 2011.